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GREECE: TOO STRATEGIC TO FAIL

by

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Biography

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Abstract

History often repeats itself. Contemporary Greece is a case in point. Greece's current financial woes are nothing new. Since before gaining its independence in 1830, what was to become the Hellenic State has teetered on the brink of insolvency. As in the past, today's fight largely revolves around the international pressure to repay the debt and the domestic intransigence to implement the financial austerity measures required to meet that obligation. Complicating this fight is the perception that corrupt Greek political and financial institutions caused Greece's current financial woes. While examples of Greek corruption abound, it is also clear that the international banking community and European Union (EU) were complicit in the current Greek financial crisis. This financial crisis, coupled with the mass wave of Syrian refugees seeking asylum in Europe and a resurgent Russia with hegemonic aspirations, pose an existential threat to the EU. Greece stands at the center of all three dilemmas. In the midst of this turmoil, the EU must decide whether prosperity or security is its top priority. This key decision will determine whether Greece, and ultimately the EU, fails.

Introduction

Contemporary Greece finds itself in a familiar situation: teetering on the brink of bankruptcy, owing approximately €323 billion, with an international committee compelling repayment by withholding billions of euros in bailout money.¹ The international committee, commonly referred to as the ‘troika,’ consists of the European Commission, European Central Bank and International Monetary Fund. The fight largely revolves around the international pressure to repay the debt and the domestic intransigence to implement the financial austerity measures required to meet that obligation.²

On 17 October 2015, the Greek Parliament passed the latest round of austerity measures to ensure troika bailout monies flowed into Greek coffers. As with previous rounds, “The program’s immediate objectives were a deep cut to public spending and enhanced revenue growth through tax increases and a crack-down on tax evasion.”³ In return for a €240 billion bailout, the austerity measures froze and reduced civil service hiring and compensation, raised taxes, raised the retirement age, and strengthened tax collection practices. Predictably, the Greek domestic response was not supportive: “about 13,000 took to the streets to protest ... public sector workers walked off their jobs ... [and] a small group of demonstrators clashed with police, throwing Molotov cocktails.”⁴ Although the troika appears to have the upper hand, there is no guarantee Greece will repay its debt.

¹ See Appendix 1 for historical perspective on Greek debt.

² See Appendix 2 for historical perspective on international meddling in Greek domestic affairs.

³ Rebecca M. Nelson, Paul Belkin and Derek E. Mix, “Greece’s Debt Crisis: Overview, Policy Responses, and Implications,” *Congressional Research Service Report for Congress* (18 August 2011), 6.

⁴ Nektaria Stamouli, Stelios Bouras and Gabriele Steinhäuser, “Greece’s Parliament Passes Austerity Measures Required for Bailout,” *The Wall Street Journal* (15 July 2015), accessed online 26 October 2015.
<http://www.wsj.com/articles/greeces-parliament-passes-austerity-measures-required-for-bailout-1437002734>.

Historically, Greece has not responded well to international coercive attempts prompting debt repayment.⁵ The troika attempt could meet with similar results. While there have been threats of ejecting Greece from the European Union (EU) and Eurozone, this is an empty gesture.⁶ There are no provisions in the founding documents of either organization to enable such a move. Conversely, it seems more plausible Greece will elect another anti-austerity party to form a national government. This first happened in January 2015, when the Greek's brought the radical-left political party, Syriza, to prominence in the parliament based on a platform of "No more bailouts, no more submission, no more blackmailing."⁷ Should Syriza or another anti-austerity party opt to not repay the Greek debt, the troika would have little recourse. "Unlike individuals or companies, countries cannot be forced to make good on their liabilities. Those that issue debt under their own law can change it retroactively ... [also] their assets are mostly either out of the reach of foreign courts or protected by treaties."⁸ In short, Greece's debt is "an unenforceable obligation" that could easily become an international dilemma.⁹ Greece, which is at the center of the financial crisis, is also on the frontlines of the Syrian refugee problem that may overwhelm Europe. Complicating matters further is a resurgent Russian Federation seeking to reestablish itself as a great power. Given the current fiscal and refugee crises, and potential for a continental great power struggle, even if it defaults, the West cannot afford to let Greece fail.

⁵ See Appendix 1 for historical examples of coercive attempts to force Greek repayment of outstanding debt.

⁶ James Chapman, "Merkel threat to Greece: We'll kick you out of EU if you hold referendum," Daily Mail.com (4 November 2011), accessed online on 26 October 2015. <http://www.dailymail.co.uk/news/article-2057377/Merkel-threat-Greece-Well-kick-EU-hold-referendum.html>. Of note: "Extraordinary details then emerged of how German Chancellor Angela Merkel threatened the Greeks not only with an end to bailout cash and ejection from the single currency, but also expulsion from the EU for at least ten years."

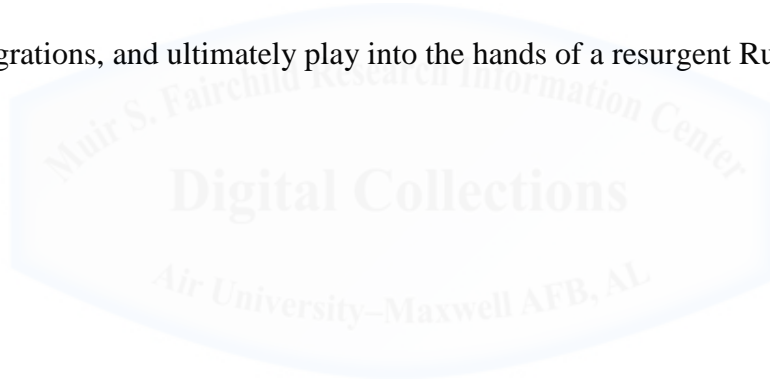
⁷ Isa Soares, "Greece elections: Is Alexis Tsipras man of the moment?" CNN.com (25 January 2015), accessed online on 26 October 2015. <http://www.cnn.com/2015/01/25/europe/soares-greece-elections/index.html>.

⁸ "An illusory haven; Sovereign-debt markets," *The Economist*, Volume 407, Issue 8832 (London, UK: 20 April 2013), 77.

⁹ "An illusory haven," 77.

Thesis

A failure of the Greek financial system will ripple across the Western hemisphere impacting prosperity and security. As such, even if it fails to meet its current loan obligations, the West must ensure Greece remains connected to Western Europe. Its strategic cultural and geopolitical location--at the crossroads between three U.S. combatant commands, three continents, and a dividing line between the West and the East--ensures Greece will remain immensely important to the United States (U.S.), the North Atlantic Treaty Organization (NATO), and the EU. A Greek financial failure could call into question the legitimacy of the EU and potentially NATO, negatively impact Europe's ability to deal with the current and future mass refugee migrations, and ultimately play into the hands of a resurgent Russia.



Greece: Too Strategic to Fail

Greek Corruption

Corruption is at the center of the financial crisis. Corruption is perceived to run rampant in Greece. According to Transparency International's *Corruption Perceptions Index*, Greece scored at the bottom of the "European Union and Western Europe" category for 2012 through 2014.¹⁰ With a score of 43--out of a possible 100, indicating the least corrupt nation--Greece ranked 69th of the 175 worldwide countries and territories assessed in 2014. While outclassed by the rest of Western Europe, corruption-wise, Greece's score is consistent with the Balkan states and Turkey, the same nations that constituted the Ottoman Empire.¹¹ Greek corruption is perhaps best illustrated by its governmental and financial institutions.

Apostolos Tsochatzopoulos was the Greek Minister of National Defense from 1996 to 2001. Starting in 1997, Tsochatzopoulos oversaw a \$17 billion military modernization effort. Over the course of a decade, Greece purchased "American fighter jets, German submarines, Russian surface-to-air missiles ... among many other weapons."¹² Tsochatzopoulos amassed a huge fortune, at public expense, thanks to the modernization effort. If not for his new extravagant lifestyle, Tsochatzopoulos may have gotten away with his €1.5 billion scam.¹³ Fortunately for the Greek public, Tsochatzopoulos was convicted and is serving twenty years in prison.

¹⁰ Transparency International, "Corruption Perceptions Index 2014: Results," accessed online on 3 October 2015. <http://www.transparency.org/cpi2014/results>.

¹¹ See Appendix 3 for further details on the source of Greek corruption. Also of note: Interestingly, the Greek score (43) is the same as the composite average for the "Asia Pacific" region.

¹² James Angelos, *The Full Catastrophe: Travels Among the New Greek Ruins* (New York, NY: Crown Publishing Group, 2015), 73.

¹³ Examples of Tsochatzopoulos' extravagant lifestyle include a Parisian wedding where he stayed with his new wife at "the Four Seasons' 2,630-square-foot, antique-furnished Royal Suite" and subsequent purchase of a €1.1 million home "opposite the Acropolis, with a clear view of the Parthenon," as depicted in Angelos, *The Full Catastrophe*, 74-75, 79.

Unfortunately for the Greek public, Tsochatzopoulos' conviction was the exception to the rule. According to Greece's top prosecutors, "even though they had caught the former minister, they had barely scratched the surface of the bribery and money laundering" associated with Greek politics.¹⁴ Graft runs rampant through all levels of government in Greece; it is an accepted practice.

The Greek economic system is also plagued by corruption. For instance, tax evasion is widespread. According to Greek-American author James Angelos, "Tax evasion in Greece was a national preoccupation. The pervasiveness of the habit, and the government's enduring unwillingness to do anything about it, was more than any other factor the cause of Greece's financial troubles."¹⁵ A Congressional Research Service report confirms Angelos' statement: "According to Greek government officials, until the debt crisis, the state taxed only one-third of officially declared income, at an average rate of about 30%. This excludes profits from an unrecorded economy that some value at upwards of 30% of the official GDP."¹⁶ Given Greece's 2014 estimated \$284.3 billion Gross Domestic Product (GDP), the unrecorded economy was \$85.3 billion.¹⁷ Assuming an average 30% tax rate, this unrecorded economy should have brought \$25.6 billion into the tax coffers. So, the question is: why hasn't Greece modernized its political and financial institutions?

According to American sociologist Fred Block, in a capitalist society, business--hoping to maximize profits--acts as a source of inertia for government growth, which tends to increase

¹⁴ Angelos, *The Full Catastrophe*, 79.

¹⁵ Angelos, *The Full Catastrophe*, 56.

¹⁶ Nelson, Belkin and Mix, "Greece's Debt Crisis," 2.

¹⁷ "The World Factbook – Greece," Central Intelligence Agency (CIA) (28 October 2015), accessed online on 18 November 2015. <https://www.cia.gov/library/publications/the-world-factbook/geos/gr.html>.

taxes.¹⁸ However, “there are certain periods--during wartime, major depressions, and periods of postwar reconstruction--in which the decline of business confidence as a veto on government policies doesn’t work. These are the periods in which dramatic increases in the state’s role have occurred.”¹⁹ Despite its turbulent history, Greece has not changed the fundamental structure of its political and economic institutions to weed out corruption.²⁰ The reason: corruption is an integral part of Greek culture.

Corruption offers advantages to those willing to play the game. For some politicians, like Tsochatzopoulos, corruption affords an opportunity to enrich themselves. For others, the system offers a means to grow “their political power by buying the favor of constituencies.”²¹ As an example, Angelos relays, “Before the [financial] crisis, politicians had often encouraged tax auditors not to work too hard before elections, so as not to dim voters’ views of their elected officials.”²² The Greek constituents also benefited from the system of corruption. For example, following the financial crisis and implementation of austerity measures, many tax collectors used the “40-40-20 deal.”²³ The ‘deal’ worked like this: “If a collector caught someone who owed 100 euros ... the money would be partitioned in a manner that advantaged everyone ... 40 euros remained with the taxpayer, 40 would go to the tax collector ... and the state, as a token,

¹⁸ Fred Block, “The Ruling Class Does Not Rule: Notes on the Marxist Theory of the State,” *Socialist Revolution*, Number 33 (May-June 1977), 24.

¹⁹ Block, “The Ruling Class Does Not Rule,” 24. Note: as an example, following the terrorist attacks of 11 September 2001, the U.S. government grew substantially by creating a new 240,000-member Cabinet-level department: the Department for Homeland Security.

²⁰ Note: Since declaring its independence in 1821, modern Greece has experienced six independent governments, six major wars, and a fifty year depression that witnessed the emigration of 535,000 Greek citizens to the U.S. George Kaloudis, “The Influence of the Greek Diaspora on Greece and the United States,” *International Journal on World Peace*, Volume XXV, Number 3 (September 2008), 30.

²¹ Constantine Tzanos, “The Dream of the European Union: Greece Under the Rule of Troika,” *Huffington Post* (12 September 2013), accessed online on 15 October 2015. http://www.huffingtonpost.com/constantine-tzanos/the-dream-of-the-european-union_b_3904390.html.

²² Angelos, *The Full Catastrophe*, 61.

²³ Angelos, *The Full Catastrophe*, 61.

received 20.”²⁴ Far from creating an ‘honest’ playing field, implementation of the austerity measures illustrate the depth and acceptance of the corrupt Greek political and financial institutions.

International Complicity

Desperate to distance itself from the military junta that governed Greece from 1967 to 1974 and redefine itself in Western terms, Greece joined the European Economic Community (EEC) in 1981, the politico-economic EU in 1992 and the monetary Eurozone in 2001. Membership offered Greece several benefits, such as increased trade opportunities, a common currency, and new international loans. To join the Eurozone, Greece was required to meet strict financial rules stipulated by the Stability and Growth Pact. Among these rules were limitations on government deficits and public debt, which were not to exceed 3% and 60% of GDP, respectively. By all public indications, Greece met these fiscal limitations. Adoption of the euro was accompanied by a sense of euphoria in Greece.²⁵ A new age of prosperity, financed by international loans, was about to sweep the nation.

The new age of prosperity was short-lived. Based on consumer confidence in the fledgling Eurozone, over the course of eight years, investors loaned hundreds of billions of euros to Greece.²⁶ Unfortunately, Greece failed to use these funds for productive purposes. Instead of

²⁴ Angelos, *The Full Catastrophe*, 61.

²⁵ “Greece joins Eurozone,” BBC News (1 January 2001), accessed online on 23 November 2015. <http://news.bbc.co.uk/2/hi/business/1095783.stm>.

²⁶ Note: In general, investment in the foreign government bond market is highly attractive to investors for two reasons. First, nations are considered stable investments. Second, and more importantly, historically, the foreign government bond market has offered higher rates of return than other investment vehicles. “The average mutual fund investing in emerging-market debt--which mainly means government bonds--has returned 10.4% a year since

investing these funds to “generate future growth, increase the competitiveness of the economy, [or] create new resources,” the Greek government spent these loans to bridge the gaps between public expenditures and low tax revenue, and the importation of goods not offset by exports.²⁷ The result: between 2006 and 2009, “Greece’s reported public debt rose from 106% ... to 126% of GDP.”²⁸ The fast growth of public debt coupled with a large trade deficit eroded investor confidence. In 2009, the Greek age of prosperity came to a crashing halt. Yet, who was to blame for the Greek financial crisis? The short answer: the multinational banking community, the EU, and, of course, Greece.

The multinational banking community was complicit in the Greek financial crisis. In 2001, Greek public debt exceeded 60% of its GDP. To meet the fiscal limitations required to join the Eurozone, Greece had to hide 2% of its debt. Greece turned to the Goldman Sachs Group for help.²⁹ To meet the Eurozone’s strict financial rules, Goldman arranged “a secret loan of 2.8 billion euros for Greece, disguised as an off-the-books ‘cross-currency swap’--a complicated transaction in which Greece’s foreign-currency debt was converted into a domestic-currency obligation using a fictitious market exchange rate.”³⁰ The reason Goldman made this arrangement is no secret; they received €600 million in compensation, which was nearly 12% of

1998. That beats the gains of emerging-market stock funds (8.2%) and dwarfs those of big American stocks (4.3%).” “An illusory haven,” 77.

²⁷ Nelson, Belkin and Mix, “Greece’s Debt Crisis,” 3.

²⁸ Nelson, Belkin and Mix, “Greece’s Debt Crisis,” 4.

²⁹ Note: With over \$36.5 billion in net revenue in 2014, Goldman is one the world’s largest investment banking, securities, and investment management firms.

³⁰ Robert B. Reich, “How Goldman Sachs Profited From the Greek Debt Crisis,” *The Nation* (16 July 2015), accessed on-line on 1 December 2015. <http://www.thenation.com/article/goldmans-greek-gambit/>.

its total revenue for 2001.³¹ While this secret arrangement appears shady, it was, in fact, a common practice.

The EU was complicit in the Greek financial crisis. “Until 2008, European Union accounting rules allowed member nations to manage their debt with so-called off-market rates in swaps, pushed by Goldman and other Wall Street banks.”³² For instance, JPMorgan, in the late 1990s, “enabled Italy to hide its debt by swapping currency at a favorable exchange rate, thereby committing Italy to future payments that didn’t appear on its national accounts as future liabilities.”³³ The EU tolerated this practice so its members could meet the Stability and Growth Pact’s limitations. It also allowed its members to sidestep fines, amounting to 0.5% of GDP, mandated by the pact for breaking these limits.³⁴ In 2001, Greece’s off-the-books swap was “not a secret to [Greece’s] colleagues in the EU, including the Germans.”³⁵ In effect, by turning a blind eye to Greece’s off-the-books swap, the EU brought an unqualified state into the Eurozone, and unwittingly enabled the Greek financial crisis.³⁶

Obviously, the Greek government was complicit in its financial crisis. On the surface, the loans gave domestic Greek politicians great power. The loans enabled relatively low tax rates,

³¹ Reich, “How Goldman Sachs Profited.”

³² Reich, “How Goldman Sachs Profited.”

³³ Reich, “How Goldman Sachs Profited.”

³⁴ Nelson, Belkin and Mix, “Greece’s Debt Crisis,” 3.

³⁵ Tzanos, “The Dream of the European Union.”

³⁶ Note: The rationale for bringing Greece into the EEC is noteworthy. As the self-appointed “protector of democracy,” the EEC was obliged to accept Greece’s bid for membership in 1981 (Karamouzi 265). Greek inclusion offered legitimacy to the EEC. Also, following only seven years after the end of the military junta, according to French President Valéry Giscard d’Estaing, “it was impossible to exclude Greece, the mother of all democracies” (Karamouzi 265). Likely, due to its ancient lineage, it was also impossible to exclude Greece from the Eurozone in 2001. As an added bonus, a stable and prosperous Greece offered a new market for Eurozone goods. Germany was quick to form solid trade relations, which by 2009 resulted in a German trade surplus with Greece that exceeded \$6.6 billion (Tzanos). Of course, this positive trade relationship was possible only because of the large public debt Greece acquired between 2001 and 2009. Eirini Karamouzi, “Enlargement policy and identity formation: A reciprocal relationship,” *National cultures and common identity : a challenge for Europe?* Marloes Beers and Jenny Raflik, eds. (Brussels, Belgium: P.I.E. Peter Lang, 2010), 265. Tzanos, “The Dream of the European Union.”

yet a high standard of living. Beneath the surface, however, there appears to be another reason the Greek government was willing to accept such an enormous public debt. The modern Greeks have long-operated from a position of weakness. Yet, from this position they have consistently extracted resources and support from the great powers.³⁷ In the early 21st century, by saddling itself with enormous debt, the Greeks bound Europe to Greece in order to secure the latter's role as an integral part of Western Europe. Using this method, contemporary Greece sought to secure its European identity. Per economists Stephen S. Cohen and J. Bradford DeLong, "if you owe the bank \$1 million, the bank has you; if you owe \$1 billion, you have the bank."³⁸ To paraphrase their work, "the implication is that [the EU] is trapped into a strange, unwanted, and uncomfortable embrace with the indebted [Greece]."³⁹ The Greeks realized and may have even planned for this 'uncomfortable embrace.' This theme is clear in Syriza's message "that Greece's problems belong to the entire euro zone."⁴⁰

Dire Implications

For centuries Europeans have dreamed of a peaceful and stable Europe. In the aftermath of the Second World War, the seeds of the EU were planted. In May 1949, Robert Schuman, one of the EU's founding fathers, said: "We are carrying out a great experiment, the fulfillment of the

³⁷ See Appendices 1 and 2 for historical example. Also note: the Greek insurgents in the 1820s had a different motive for employing the same method. "The motive of the Greek envoys was different. Aware of the speculative temper of the English money market, they very strongly recommended to their government the sanctioning of additional borrowings. *Their idea was to saddle Greece with large obligations so as to bind the financial interest of Great Britain to the Greek cause*; in their anxiety to safeguard their investments, British bondholders could not but espouse the cause of Greek freedom." Levandis, *Greek Foreign Debt*, 16, *Italics mine*.

³⁸ Stephen S. Cohen and J. Bradford DeLong, *The End of Influence: What Happens when Other Countries have the Money* (Philadelphia, PA: Basic Books, 2010), 5.

³⁹ Cohen and DeLong, *The End of Influence*, 5.

⁴⁰ "Chronicle of a struggle; Charlemagne," *The Economist*, Volume 415, Issue 8941 (London, UK: 6 June 2015), 45.

same recurrent dream that for ten centuries has revisited the peoples of Europe: creating between them an organization putting an end to war and guaranteeing an eternal peace.”⁴¹ On 7 February 1992, the twelve member states of the EEC formalized the ‘great experiment’ by signing the Treaty on European Union. According to Article 3 of the treaty, “The Union’s aim is to promote peace, its values and the well-being of its peoples ... It shall work for the sustainable development of Europe ... and solidarity among Member States.”⁴² Unlike any previous dilemma, the on-going Greek financial crisis threatens the EU.

The Greek financial crisis represents an existential threat to the EU. The threat is not based on the amount of money Greece owes to its bondholders. The total Greek debt of €323 billion (approximately \$351 billion) is paltry compared to the EU’s estimated 2014 GDP of \$18.46 trillion.⁴³ The threat is more fundamental. The Greek financial crisis is an existential threat to the solidarity of the EU as a politico-economic entity.

The austerity measures intended to reform Greek financial practices and enable debt repayment, are instead crippling Greece’s economy. The Greek GDP has plummeted from \$354.6 billion in 2008 to less than \$237.6 billion in 2014.⁴⁴ This represents nearly a 33% drop in GDP since the beginning of the debt crisis. Impacting Greece’s GDP is a -5.8% industrial production growth rate in 2014, and a \$29.6 billion trade imbalance.⁴⁵ In 2014, this downturn translated into an unemployment rate of 26.6%.⁴⁶ Perhaps most striking is that 44% of the Greek

⁴¹ Tzanos, “The Dream of the European Union.”

⁴² Tzanos, “The Dream of the European Union.”

⁴³ “European Union,” The World Bank, accessed online on 4 December 2015.
<http://data.worldbank.org/region/EUU>.

⁴⁴ “GDP,” The World Bank, accessed online on 4 December 2015.

<http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries/GR?page=2&display=default>.

⁴⁵ “The World Factbook,” CIA.

⁴⁶ “The World Factbook,” CIA. Note: For comparison, the U.S. unemployment rate in 2014 was 6.2%.

population is living at or below the poverty line.⁴⁷ It is little wonder that Greece is considered one of the “sick men of Europe.”⁴⁸

Unfortunately, the sickness is growing. “The harsh austerity programs prescribed by the [troika] are dragging Greece and Portugal into a downward economic spiral.”⁴⁹ Also impacted are Spain, Italy and Cyprus. In contrast to Article 3 of the Treaty on European Union, in each case national prosperity was sacrificed “to meet the [troika’s] fiscal deficit goals.”⁵⁰ The EU is quickly becoming an organization split between rich and poor members. The Greek crisis, in particular, has spread a “fear of contagion” across the EU.⁵¹ Complicating this fear is Greek Prime Minister Tsipras’ declaration “that the strategy adopted by Greece’s creditors risked ‘the split and division of the euro zone, and consequently of the EU.’”⁵²

Tsipras’ elevation to Prime Minister in January and then September of 2015 is significant. It represents not only a break with the centrist parties that led Greece into the debt crisis, but also the high frustration level of the Greek population. “Tsipras won because those who imposed austerity never thought about the effects of such drastic policies that impoverished millions of people.”⁵³ Elected at the age of 40, Tsipras is the youngest serving Prime Minister since 1865. As an avowed atheist and member of the Greek Communist Party, he also

⁴⁷ “The World Factbook,” CIA. Note: cited figure is as of 2013.

⁴⁸ Alyson JK Bailes, “Lessons from our friends in the North,” *The World Today*, 68.10/11 (Dec 2012/Jan 2013), 8.

⁴⁹ Mario Queriros, “Finance: Portugal, Greece Pose Risk of Contagion.” *Global Information Network* (New York: NY: 20 Feb 2012).

⁵⁰ Queriros, “Finance.”

⁵¹ Queriros, “Finance.”

⁵² “Chronicle of a struggle; Charlemagne,” 45.

⁵³ Jim Yardley and Liz Alderman, “Greece Chooses Anti-Austerity Party in Major Shift,” *The New York Times* (25 January 2015), accessed online on 4 December 2015. <http://www.nytimes.com/2015/01/26/world/europe/greek-election-syriza.html?rref=collection%2Ftimestopic%2FTsipras%2C%20Alexis>.

undoubtedly has a worldview that differs from his predecessors.⁵⁴ This worldview caused Tsipras to not only challenge “the vicious circle of austerity,” but also to seek support from non-EU states, most notably Russia.⁵⁵

Under the leadership of President Vladimir Putin, tensions between Russia and the West have grown to their highest point since the end of the Cold War. In just the past two years, several key events--Russia's invasion and annexation of Crimea, and subsequent large-scale nuclear exercise--prove this point. The most recent signs--Russia's military support of Syrian President Bashar al-Assad in his fight against the Islamic State, the Turkish shoot down of a Russian warplane, and Putin's expressed displeasure with Montenegro's invitation to join NATO--indicate that relations between Russia and the West are further deteriorating.

Likely, the rationale for Putin's recent aggression is his desire for the world to view Russia as a great power, once again. These actions also speak of the “Russian leaders ... fear [of] the European example ... The post-communist and post-Soviet countries that have joined the European Union are not only freer but richer than Russia.”⁵⁶ With a GDP of roughly \$1.9 trillion, Russia is unable to compete economically with the EU.⁵⁷ Instead, Russia has used its military strength--an asymmetric advantage compared to the EU--to threaten Europe's stability. “The war in Ukraine was thus never about Ukraine alone. It was always about the destruction of the

⁵⁴ “Greek elections: Main parties from Syriza to Golden Dawn explained,” British Broadcasting Corporation (26 January 2015), accessed online on 24 September 2015. <http://www.bbc.com/news/world-europe-30913028>.

⁵⁵ Yardley and Alderman, “Greece Chooses Anti-Austerity Party.”

⁵⁶ Timothy Snyder, “The Real Reason Russia is ‘Helping’ Syria,” *Time* (30 September 2015), accessed online on 1 October 2015. <http://time.com/4054941/putin-russia-syria/>.

⁵⁷ “GDP,” The World Bank.

European project.”⁵⁸ Playing to both the international and Russian domestic audiences, Putin used military might to force his way back onto the world stage. To stay there, the EU must fail.

The EU’s current dilemmas--the debt crisis and inflow of refugees from war-torn Syria--support Putin’s bid. The war in Syria has created 4.3 million refugees.⁵⁹ In September 2015, German Chancellor Angela Merkel invited Syria’s refugees to seek asylum in Germany. Through October, “Germany registered 758,000 refugees ... The country will cross the million threshold by the end of the year.”⁶⁰ Due to its proximity to Syria, Greece has been at the forefront of the refugee crisis. “More than half a million migrants ... have poured into the country.”⁶¹ Despite Greece’s central role, the EU has provided no additional financial support nor lessened the troika’s austerity measures. Other EU members are also feeling the strain. Slovenian Prime Minister Miro Cerar recently indicated his nation is not receiving enough support, and “if no fresh approach is forthcoming ... ‘I do believe that the European Union as a whole will start to fall apart.’”⁶²

Although Russia has taken no overt action to pull Greece away from the EU, the conjunction of the financial crisis and harsh austerity measures, lack of EU support for the ongoing refugee crisis, and election of a left-leaning Greek government do not rule this out. That

⁵⁸ Snyder, “The Real Reason Russia is ‘Helping’ Syria.”

⁵⁹ “What you need to know: Crisis in Syria, refugees, and the impact on children,” World Vision (4 December 2015), accessed online on 5 December 2015. <http://www.worldvision.org/news-stories-videos/syria-war-refugee-crisis>.

⁶⁰ Janosch Delcker, “Merkel: Welcoming refugees ‘right thing to do,’” Politico (13 November 2015), accessed online on 5 December 2015. <http://www.politico.eu/article/merkel-welcoming-refugees-right-thing-to-do/>.

⁶¹ Dan Bilefsky, “Greek Premier Condemns Europe’s Response to Migrant Crisis,” *The New York Times* (30 October 2015), accessed online on 5 December 2015. http://www.nytimes.com/2015/10/31/world/europe/tsipras-migrants-aegean-eu.html?rref=collection%2Ftimestopic%2FTsipras%2C%20Alexis&_r=1.

⁶² Raf Casert and Amer Cohadzic, “Germany’s Angela Merkel calls for action on refugees as Slovenian PM warns EU could ‘start to fall apart,’” *National Post* (26 October 2015), accessed online on 5 December 2015. <http://news.nationalpost.com/news/germanys-angela-merkel-calls-for-action-on-refugees-as-slovenian-pm-warns-european-union-could-start-to-fall-apart>.

said, Russia has recently sought to improve relations with Greece on the fringes.⁶³ Should Russia entice Greece to exit the EU, and potentially NATO, it would mark the end of Schuman's 'great experiment.'⁶⁴ Of course, "If Europe fragments into nation-states, Russia [once again] becomes a much stronger player" on the world stage.⁶⁵



⁶³ Examples include: a request to return the Turkish-owned Hagia Sophia basilica to the Greek Orthodox Church as a gesture of goodwill following the Turkish downing of a Russian warplane (Chrysopoulos, "Russian MP"); a combined Greek-Russian initiative for summer cruises in Greece (Zikakou); and Russian offers to export natural gas to Greece, and improve trade relations (Chrysopoulos, "Tsipras"). Philip Chrysopoulos, "Russian MP: Turkey to Return Hagia Sophia to Greece as Friendly Gesture," *Greek Reporter* (30 November 2015), accessed online on 5 December 2015. <http://greece.greekreporter.com/2015/11/30/russian-mp-turkey-to-return-hagia-sophia-to-greece-as-friendly-gesture/>. ⁶³ Ioanna Zikakou, "Greek-Russian Co-Initiative for Summer Cruises in Greece," *Greek Reporter* (1 December 2015), accessed online on 5 December 2015. <http://greece.greekreporter.com/2015/12/01/greek-russian-co-initiative-for-summer-cruises-in-greece/>. Philip Chrysopoulos, "Tsipras: New Page in Greek-Russian Relations," *Greek Reporter* (31 March 2015), accessed on 1 October 2015. <http://greece.greekreporter.com/2015/03/31/tsipras-new-page-in-greek-russian-relations/>.

⁶⁴ Tzanos, "The Dream of the European Union."

⁶⁵ Snyder, "The Real Reason Russia is 'Helping' Syria."

Conclusion

The EU is at a crossroads. Robert Schuman's 'great experiment' is predicated on the principles of prosperity and security. Unfortunately, the conjunction of the Greek financial crisis, inflow of Syrian refugees, and Russia's hegemonic aspirations has created a conflict between these principles. At this point, the EU must choose between *individual member-state prosperity* and *unified European security*. Both choices are fraught with danger.

If individual member-state prosperity remains the EU's priority, unified European security will suffer. By enforcing the austerity measures prescribed by the troika, the EU will continue to extract euros to enrich the bondholders of Greek debt. However, this will come at a cost. Although complicit in its own financial crisis, the Greek government--especially a left-leaning prime minister and parliament--may decide to default on its debts. Given the failure of its 'uncomfortable embrace' with the West, Greece may choose of its own volition to leave the EU. Likely, in this regard, Greece would act as the bell weather for other poorer EU members. Reeling from their own financial difficulties, which are exacerbated by a refugee problem they did not encourage, members like Italy, Cyprus, and Slovenia may follow the Greek example. The loss of any member will call into question the legitimacy of the 'great experiment.' The loss of its poorest members will likely bring accusations of an ethically bankrupt union. At the extreme, an EU decision to prioritize prosperity over security could lead to the dissolution of the EU as a politico-economic entity. As a result, both the long-term prosperity and, more importantly, security of the European continent would be negatively impacted.

If unified European security is the priority, individual member-state prosperity may be impacted over the short-term, but both security and prosperity will flourish over the long. While

choosing security may be a harder decision, it is far less divisive. If security of the continent is the priority, the EU must reapportion financial resources to support this decision. Likely, this means reducing or even eliminating the troika's austerity measures. It also would require the wealthier nations to help the poorer members financially so all can weather the on-going refugee storm. In the final analysis, this key decision will prevent Greece, and ultimately the EU, from failing.



Appendix 1

Historical Financial Dilemmas

Modern Greece's financial woes are nothing new. Since before gaining its independence in 1830, what was to become the Hellenic State has teetered on the brink of insolvency. To fund the revolution, the Greek insurgents sought financial assistance throughout Europe. In March 1824, thanks largely to the London Philhellenic Committee, British investors floated the first Independence Loan of £472,000 to the Greek provisional government.⁶⁶ A second Independence Loan, worth £1.1 million, was made in 1825.⁶⁷ Although the Greeks failed to make agreed upon loan repayments during the revolution, the Great Powers offered a third Greek loan in 1832 to prop up the fledgling state. Known as the Guaranteed Loan, England, France and Russia each agreed to fund one-third of the 60 million francs (approximately £2.4 million) loan to Greece.⁶⁸ Once again, Greece failed to meet its loan obligations.

To complicate matters, Greece consistently used the loaned funds for unproductive purposes. The relatively small 1824 loan installments, for instance, were used by the Greek insurgents to purchase extravagant “gilded yataghan [swords] and silver mouthed pistols ... [and] rich Albanian habiliments.”⁶⁹ Later the Bavarian-transplanted Greek monarchy used the Guaranteed Loan installments to bolster “The army, the civil list, and a richly rewarded Bavarian bureaucracy.”⁷⁰ In a scathing letter to the Austrian ambassador to England, the Austrian

⁶⁶ John A. Levandis, *The Greek Foreign Debt and the Great Powers: 1821-1989* (New York, NY: Columbia University Press, 1944), 14-15.

⁶⁷ Levandis, *Greek Foreign Debt*, 18.

⁶⁸ Levandis, *Greek Foreign Debt*, 33-35.

⁶⁹ G. Finlay, *A History of Greece from Its Conquest by the Romans to the Present Time*, Vol. VI (London, 1877), 338; as quoted in Levandis, *Greek Foreign Debt*, 16.

⁷⁰ Levandis, *Greek Foreign Debt*, 41.

Chancellor Prince Klemens von Metternich, complained bitterly about the Greek monarchy's "great error of occupying itself merely with the formation of a Government and neglecting to busy itself with forming the country."⁷¹ Written seven years after the Guaranteed Loan was floated, Metternich's letter indicates Greece had made little headway in developing an economy capable of repaying its debts. It seems the monarchy was more interested in the trappings of a government, rather than the substance of an independent Greek nation.

From its beginning, the Greek state "failed to comprehend that their freedom rested on a willingness to assume additional burdens and on a readiness to discharge [those burdens] promptly and regularly."⁷² In 1857, Greece's inability to repay its debts resulted in the formation of the International Financial Commission of Inquiry. Tasked with determining how Greece could repay its debts, the Commission, which was led by representatives from England, France and Russia, identified several immature administrative practices within the Greek national government. Chief among these were the need to exercise surveillance and control of public revenues, establish an equitable tax system, institute a national land survey, and publish transparent fiscal measures.⁷³ While the Greek government accepted the Commission's findings and made an overture to mend its administrative practices, the recommendations resulted in no meaningful change.⁷⁴ This was just one of several attempts to compel the Greek government to

⁷¹ Letter dated 14 April 1839; as quoted in L. Bower and G. Bolitho, *Otho I, King of Greece* (London, 1939), 128; as quoted in Levandis, *Greek Foreign Debt*, 44. Quotation continues: "... We are accustomed, Sir, when we want to build a house, to start with the foundations and end with the roof. Not till then do we busy ourselves with furnishing it. The Regency proceeded to do the opposite. By creating heaps of employees and of light blue uniforms, and by raining financial regulations upon empty coffers and laws on taxation without even having thought of drawing up regulations governing the conditions of property, the Regency considered it had set up a country."

⁷² Levandis, *Greek Foreign Debt*, 3.

⁷³ Levandis, *Greek Foreign Debt*, 51-2.

⁷⁴ Levandis, *Greek Foreign Debt*, 53. In June 1860, following publication of the Commission's recommendations, the Greek government made a single installment of 900,000 francs to its bondholders. The Greek government failed

make good on its financial obligations to external bondholders. Other, more coercive examples include the 1847 British deployment of three men of war off the Greek coast and the prolonged 1854 Anglo-French occupation of the port of Piraeus, which was the precursor to the establishment of the Commission.⁷⁵ These attempts were also largely ineffective in prompting Greece to repay its debts.



to make payments over the next three years and then, in 1864, requested forbearance for five years. The Great Powers relented on the request.

⁷⁵ Levandis, *Greek Foreign Debt*, 48 and 50. The 1847 British show of force resulted in a Greek offer to repay only 200,000 francs.

Appendix 2

Pesky International Entanglements

While the size of the current Greek debt crisis appears unprecedented, in truth, it is not. Since its rebirth, to meet its financial obligations modern Greece has relied on the financial assistance of the international community. Unfortunately, this assistance came with strings attached. Foreign powers, unwilling or unable to see Greece as a truly independent state, have consistently meddled in Greek domestic affairs.

On 25 March 1821, poor and landless revolutionaries declared Greece's independence from their Ottoman rulers. With Napoleon's defeat at Waterloo a mere six years prior to Greece's bid for independence, the European Great Powers were initially hesitant to embrace a revolution "likely to jeopardize the peace of the Continent."⁷⁶ From the beginning, "there was ... a marked aversion to countenancing any revolt against constituted authority, even when that authority was represented by an infidel."⁷⁷ However, starting with the execution of the Orthodox Ecumenical Patriarch of Constantinople, Grigorios V, by the Ottomans on 10 April 1821, the Great Powers' resolve began to weaken.⁷⁸

Ostensibly, because of their mutual Orthodox background, Greece and Russia have long shared a special connection. This connection extends back to at least 1774 when the Russian Empire defeated the Ottomans and claimed that henceforth the Russians were "a protectorate over all Orthodox Christians."⁷⁹ Since then, both Russia and Greece have fostered this relationship for their own political advantage. In March 2015, by including Kirill I, the Patriarch

⁷⁶ Levandis, *Greek Foreign Debt*, 4.

⁷⁷ Levandis, *Greek Foreign Debt*, 4.

⁷⁸ Clogg, *History of Greece*, 11.

⁷⁹ Clogg, *History of Greece*, 20.

of Moscow and all of Russia, in talks with Greek Prime Minister and Syriza party head, Alexis Tsipras, Russian President Vladimir Putin used orthodoxy as a form of soft power to strengthen the ties between the two nations.⁸⁰ Since at least Tsar Peter the Great's reign, Russia has sought access to the Mediterranean Sea as an economic trade route and means of projecting military power. By offering a Russian market for Greek agriculture, Putin could be laying the groundwork to make Peter the Great's dream a reality.

For its part, Greece has long sought strong relations with Russia. For instance, in 1854, during the Crimean War between Russia and the Ottoman Empire, Greece attempted to side with Russia.⁸¹ While Britain and France blocked Greek involvement, the onus behind Greek participation was important: "The bond of a common religion decided the sympathies of Greece in favour of Russia."⁸² The Greek monarchy was also directly tied to Russia. On 27 October 1867, Grand Duchess Olga Constantinova of Russia, niece to Tsar Alexander II, married King George I of Greece. Queen Olga would become the Regent of Greece for a short period in 1920. Even the recent 25 March 2015 Independence Day parade was reminiscent of a traditional Russian military parade: high-stepping troop formations in ceremonial garb, large waves of tanks, troop transport vehicles, mobile missile platforms and rotary and fixed-wing military aircraft moving through or over the streets of Athens for seven hours. It is little wonder, then,

⁸⁰ Philip Chrysopoulos, "Tsipras: New Page in Greek-Russian Relations." Greek Reporter (31 March 2015). Accessed on 1 October 2015. <http://greece.greekreporter.com/2015/03/31/tsipras-new-page-in-greek-russian-relations/>.

⁸¹ Note: in response to a Greek guerrilla invasion of Turkey, Britain and France occupied the port of Athens between May 1854 and February 1857. The British and French coercion, presumably to maintain the balance of power across the European continent, worked; Greece relented.

⁸² Edward S. Forster, *A Short History of Modern Greece: 1821-1940* (London, Great Britain: Methuen & Co. Ltd., 1941), 15.

that in 1825 the Greeks once again, in hopes of resolving their dispute with the Ottomans, reached out to Russia and the other Great Powers.

By the mid-1820s the Great Powers were “more inclined to an interventionist role.”⁸³ Several key events encouraged their intervention. First, was the assassination of Grigorios V by the Ottomans. Shortly thereafter, starting on Holy Friday, 13 April 1822 and extending for two weeks, the Ottomans massacred the Orthodox inhabitants of the Greek island of Chios. “About 90,000 people were killed in the Massacre ... 50,000 were enslaved and about 25,000 were exiled. Only 2,000 inhabitants managed to survive.”⁸⁴ French artist Eugene Delacroix’s *The Massacre of Chios*, painted in 1824, captured the plight of the Greeks on Chios. According to historian C.M. Woodhouse, European artists such as Delacroix, “Byron and Shelley, Goethe, Schiller and Victor Hugo [whose names] meant nothing to the [Ottoman] Sultan ... were [in fact] his real enemies.”⁸⁵ These were the artists that popularized the Greek plight throughout Europe, galvanizing public opinion and financial support for the revolution. This “philhellenic agitation ... had some small effect in finally moving the governments of the Holy Alliance” to act.⁸⁶ The final straws for the Great Powers were the impact of the on-going war on trade in the eastern Mediterranean and that “each was fearful lest the other might be able to turn the festering

⁸³ Clogg, *History of Greece*, 42.

⁸⁴ “Chios Massacre,” Greeka.com. Accessed online on 29 October 2015. http://www.greeka.com/eastern_aegean/chios/chios-history/chios-massacre.htm.

⁸⁵ C.M. Woodhouse, *A Short History of Modern Greece* (New York, NY: Frederick A. Praeger, Publishers, 1968), 136. Biographical note: Along with being an historian, Mr. Woodhouse was a life-long philhellene. In October 1942, he led Greek resistance forces against German occupying forces. Also known as Lord Terrington, Mr. Woodhouse served as a colonel in the Royal Artillery during WWII, as the chief of station for British intelligence in Tehran during the coup that brought the shah to power, and as a Member of Parliament. Douglas Martin, “C.M. Woodhouse, Writer on Modern Greece, Dies at 83,” *The New York Times* (4 March 2001), accessed online on 29 October 2015. <http://www.nytimes.com/2001/03/04/world/c-m-woodhouse-writer-on-modern-greece-dies-at-83.html>.

⁸⁶ Clogg, *History of Greece*, 37.

conflict to its own political advantage.”⁸⁷ As a result, Great Britain, France and Russia signed the Treaty of London on 6 July 1827.

The Treaty of London, subtitled “The Pacification of Greece,” was an offer of mediation between the Ottoman Porte and the Greek insurgents.⁸⁸ Article II of the treaty established Greece as an independent state “under the Sultan as under a Lord paramount.”⁸⁹ As recompense, Greece was obligated to pay an annual tribute to the Sultan. In the event either party should decline the offer of mediation, the Great Powers would “exert all the means which circumstances may suggest to their prudence, for the purpose of obtaining the immediate effects of the Armistice.”⁹⁰ Clearly, the Great Powers desired a cessation of hostilities and were willing to accomplish this task using any means necessary.

The Greeks immediately accepted the armistice; the Ottomans did not. In an attempt to secure Ottoman acceptance, a combined British, French and Russian fleet, under the command of British Admiral Sir Edward Codrington, blockaded the combined Turkish-Egyptian fleet in the bay of Navarino. On 20 October 1827, in response to another attempt to secure Ottoman acceptance, “an Egyptian ship foolishly shot down the occupants of an open boat sent to parley.”⁹¹ The Great Powers’ response was swift and decisive; the Turco-Egyptian fleet was annihilated. Although probably not intended, this action ensured “some form of independent

⁸⁷ Clogg, *History of Greece*, 42.

⁸⁸ “The Treaty of London between Great Britain, France, and Russia for the Pacification of Greece, July 6, 1827, excerpts,” *Modern History Sourcebook*. Accessed online on 30 October 2015.
<http://www.fordham.edu/halsall/mod/1827gktreaty.html>.

⁸⁹ “Treaty of London,” *Modern History Sourcebook*.

⁹⁰ “Treaty of London,” *Modern History Sourcebook*.

⁹¹ Woodhouse, *History of Modern Greece*, 148.

Greece [was] inevitable.”⁹² For its assistance, the Great Powers exacted a high price from the newly independent Greek nation.

In 1822 the Greek provisional government proclaimed the formation of the first Greek constitution. Heralding back to its ancient roots, Greece was to be a democracy. By May 1827, the provisional government had enacted a third constitution and elected its first president. A democracy was considered too liberal by the Great Powers. So, as compensation for their part in the Battle of Navarino, in 1832 at the Convention of London the Great Powers declared that “As part of the price of agreeing to independence ... Greece should be an hereditary monarchy, whose king should be drawn from one of the royal houses of Europe ... the seventeen-year-old second son of King Ludwig I of Bavaria” was chosen.⁹³ In 1833, upon his eighteenth birthday, King Otto I ascended the new Greek throne.

To notionally advise the new monarch in the formation of a Greek government, and, more specifically, oversee repayment of the Guaranteed Loan, each of the Great Powers dispatched diplomatic agents to the provisional Greek capital, Nafplion. “By the end of 1835, Greek affairs received a great amount of attention from European cabinets, and Athens became for some years the stage on which diplomatic intrigue was a never-ending play.”⁹⁴ Otto quickly learned to play the diplomatic agents off one another in order to gain further financial assistance. In effect, as Lord Lyons stated to one of his Austrian colleagues, “a really independent Greece is an absurdity. Greece is either Russian or English and since she must not be Russian she must be

⁹² Clogg, *History of Greece*, 42.

⁹³ Clogg, *History of Greece*, 45.

⁹⁴ Levandis, *Greek Foreign Debt*, 42. Note: Athens replaced Nafplion as the Greek capital in 1835.

English.”⁹⁵ This pattern of international invention in Greek domestic affairs, and Greek complicity in an effort to seek more favorable economic advantage, is one that continues through to today.



⁹⁵ Dispatch of Metternich to Hummelauer, Austrian Ambassador to London, quoted in Bower and Bolitho, *Otto I, King of Greece*, 106; as quoted in Levandis, *Greek Foreign Debt*, 42.

Appendix 3

Greek Orientalism

In the pantheon of nations that make up Western Europe, Greece stands out. Part of this difference stems from the modern Greeks, themselves. Compared to much of the rest of Western Europe, the stereotypical Greek has a darker complexion; practices Greek Orthodoxy as opposed to Roman Catholicism, Protestantism or no religion; and, speaks Greek, a language that while rooted in the Indo-European family of languages, is completely different. While interesting, these ethnic, religious and linguistic differences do not explain why Greece differs from the rest of Western Europe. A short review of Greek history, however, may shed more light.

For centuries, the Greek mainland and isles were under the control of foreign empires: the Macedonians, the Romans, the Byzantines, and finally, starting in 1453, the Ottomans. As a vassal of the Ottoman Empire, nineteenth century Greece had been largely insulated from European influence for nearly four centuries. While Greece was a part of the European continent, due to her isolation she had missed “the great historical movements such as the Renaissance, the Reformation, the seventeenth-century scientific revolution, the Enlightenment and the French and Industrial Revolutions that so influenced the historical evolution of western Europe.”⁹⁶ Thus, during Western Europe’s formative years, Greece was effectively caught between its physical position in the West and its enforced servitude to the East. This servitude helped form modern Greece’s culture.

Modern Greece is oriental in its outlook. Orientalism “refers to the history of how Westerns have historically defined ... the ‘Orient’ or ‘East’ ... whether as a geographic entity, a

⁹⁶ Richard Clogg, *A Concise History of Greece* (Cambridge, UK: Cambridge University Press, 1992), 3.

particular culture, or as a distinctive value system.”⁹⁷ Western nations tend to idealize the political, social and economic traditions of “individual freedom, equality of right, majority rule, progress, enterprise, the rule of law, and the strict limits of the state.”⁹⁸ In contrast, those nations labelled ‘oriental’ either espouse *or* practice different traditions. Although modern Greece is a democracy that espouses ‘Western’ traditions, in practice many of these traditions are ‘oriental.’ Corruption is at the core of Greece’s oriental outlook.



⁹⁷ Patrick Porter, *Military Orientalism: Eastern War Through Western Eyes* (New York, NY: Oxford University Press, 2013), 13-14.

⁹⁸ Colin Dueck, *Reluctant Crusaders: Power, Culture, and Change in American Grand Strategy* (Princeton, NJ: Princeton University Press, 2006), 21.

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